CFSI Center for Financial Services Innovation

Oportun: The True Cost of a Loan

Introduction: Modeling the Real Costs of Borrowing

A Holistic Approach to Measuring Loan Value

Identifying which small-dollar credit products are most economical for vulnerable consumers can be a difficult task for providers, policy-makers, and community leaders. Differences in rates, fees, repayment schedules, and accessibility make it nearly impossible to distinguish whether a loan is truly affordable or to make clear comparisons between options.

The Center for Financial Services Innovation (CFSI) designed a model that reflects the authentic credit needs, financial circumstances, available choices, and repayment ability of credit-challenged consumers.

In search of a simple way to measure loan value, small-dollar loans are often compared only by initial costs, regardless of the number of times a borrower may have to pay fees and interest to settle the debt, or only based on annual percentage rates, regardless of a loan's length. Neither of these figures alone can provide enough information to accurately compare loans with disparate pricing and structures. Instead, loan industry practitioners and monitors at the state and national level can benefit from a more nuanced method to assess which loan business models to support or recommend.

The Center for Financial Services Innovation (CFSI) designed a model that reflects the authentic credit needs, financial circumstances, available choices, and repayment ability of credit-challenged consumers.

Oportun, a Community Development Financial Institution (CDFI), and fintech leader is dedicated to providing affordable loans to people with little or no credit history in Arizona, California, Illinois, Nevada, Texas, and Utah.[1]

While Oportun structures and prices their unsecured installment loans with the goal of offering the most affordable credit possible to borrowers, the company wanted a more thorough quantitative understanding of how much their customers save by working with Oportun versus widely available alternatives. CFSI applied a holistic model to determine whether Oportun's loans were indeed a less expensive option for their customers and how much these customers saved.

The model compares the costs a typical borrower would incur to fully repay loans of equal sizes from two or more types of lenders, including all reborrowing necessary to retire the loan.

The model withstands variation in loan rates, fees, timespan, and accessibility across a wide range of small-dollar credit alternatives. This framework is unique because it is grounded in a consumer needs-based approach: it considers products that are accessible to credit-challenged and low-income consumers by modeling their likelihood of turning to each type of loan, as well as the average amount of the loan, based on the reasons these consumers borrow. It then models repayment success and expenses incurred using loan costs and available income as the key determinants.

Rather than attempt to single out any one element of loan pricing or structure as good or bad independently, it recognizes that each variable impacts the others, and that all are grounded in the borrower's current financial circumstances. By allowing for a more detailed understanding of which products are priced for consumer repayment success and which are not, the model offers a meaningful way to compare and contrast the cost of small-dollar products to their typical consumers rather than those in hypothetical best- or worst-case scenarios.

[1] As of October 2016, Oportun had 224+ locations in six states: Arizona, California, Illinois, Nevada, Texas, and Utah.

Modeling the Borrower Experience: Key Methodological Determinants

This approach takes into account several key factors that jointly impact a loan's cost:

- Initial loan size
- Rates and fees
- Loan repayment structure and timeframe
- Borrower income available to repay the loan
- Legal parameters that prevent or constrain borrowing

Together, these factors create a holistic measure of the total amount a borrower must spend to repay a loan in full. For some, this may mean entering a cycle of debt or defaulting if available income cannot keep pace with the demands of loan repayment. In these cases, the model continues to account for the cost of rollovers and refinancing until the loan is either abandoned or fully repaid and the borrower is free and clear.

These factors create a holistic measure of the total a borrower must spend, entering a cycle of debt if available income cannot keep pace with the demands of loan repayment. The model accounts for the cost of rollovers and refinancing until the loan is either abandoned or fully repaid.

Cost Comparisons: A Summary of Findings

The model demonstrates the true cost of an Oportun loan–and its cost relative to other products used to fulfill similar borrowing needs–by applying identical loan sizes and borrower financial circumstances to each alternative product's unique set of rates, fees, and terms. It then measures how the borrower fares in each instance to determine the total amount a typical Oportun customer must spend to fully repay loans of equal sizes from Oportun and from typical small-dollar credit alternatives.

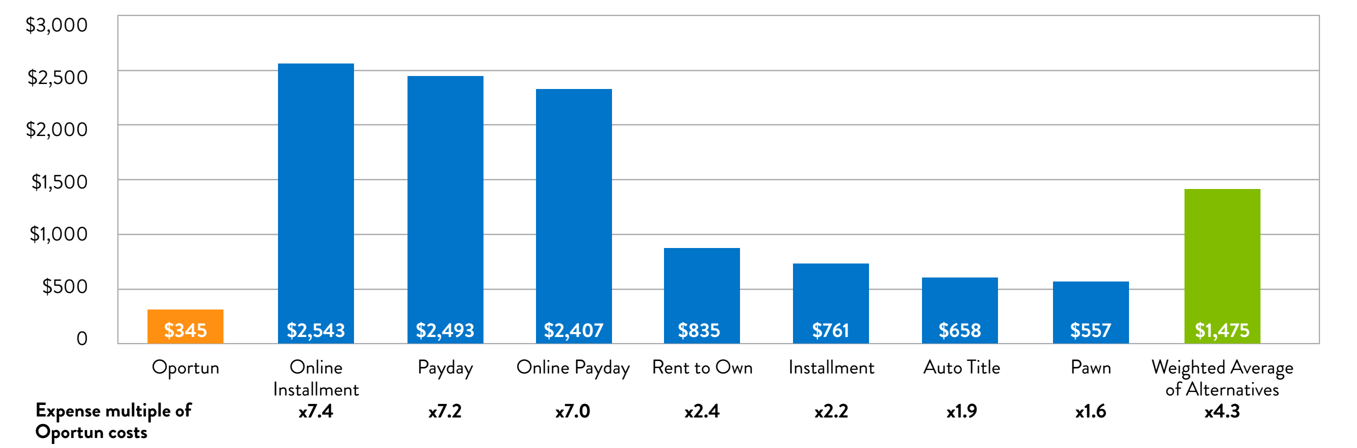
CFSI measured loan savings for the 814,471 customers who were new to credit at Oportun from October 2008 through December 2016 and earned annual household incomes of up to $50,000.[2]

$921 million saved

- CFSI found that Oportun's loans saved customers **$921 million** since 2008.
- Oportun saved their average customer **$1,130** on a first loan.
- Typical widely available loan alternatives cost on average **four times more** to repay.[3]
- The most costly small-dollar credit alternatives cost on average **seven times more** to repay.[4]

Oportun loans remain significantly more affordable while also providing a high-quality product, as defined by CFSI's Compass Principles, that supports consumer financial health and allows consumers the opportunity to establish credit. (For more information on CFSI's Small-Dollar Credit Compass Guidelines, see Figure 3 on page 4).

Figure 1: Loan Alternatives Cost Up to 7 Times More Than Oportun: Average Cost of Loans by Provider Type



Comparison of total spending on fees and interest to repay a loan at Oportun and alternative providers for all first-time Oportun customers earning up to $50,000 annual income.

Oportun average loan cost of $345 based on the model's Oportun average loan size of $1,112. The model's loan sizes driven by customer loan use segments. (See Figure 4 on page 5 for more detail).

Source: CFSI consumer and market research analysis. Additional data provided by Oportun.

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[2] Those earning up to $50,000 in gross annual income represent 91% of all Oportun first-time customers.

[3] Cost comparison with Oportun represents average across all loan amounts, alternative products, providers, and borrower states of residence included in the model (AZ, CA, IL, NV, TX, & UT).

[4] 4 Cost comparison between loan alternatives and Oportun represents average across all loan amounts, providers, and borrower states of residence included in the model (AZ, CA, IL, NV, TX, & UT).

Price and Circumstance: A Consumer Needs-Based Yardstick for Comparing Loans

Oportun customers seeking a first loan often have limited credit history or none at all. This is a constraint faced by many U.S. consumers. The Consumer Financial Protection Bureau estimates that 45 million U.S. adults–about 21% of the population–cannot access mainstream credit because they are credit invisible or unscorable.[5]

Lack of access to mainstream credit can be damaging to financial health, impeding the ability to manage one's day-to-day financial life, respond to unexpected events, and build long-term resilience and opportunity. The Federal Reserve found that in 2015, one in three credit applicants were turned down, given less credit than they applied for, or avoided applying for credit because they feared they would be denied.[6]

These credit-challenged consumers typically turn to alternative loan providers, including payday, pawn, installment, and auto title lenders, online payday and installment lenders, or rent to own services. In fact, CFSI proprietary research drawn from a nationally representative survey shows strong demand for small-dollar credit products for a range of consumer needs.[7]

The loan uses reported by Oportun customers matched with three types of small-dollar credit needs segmented in CFSI survey results:

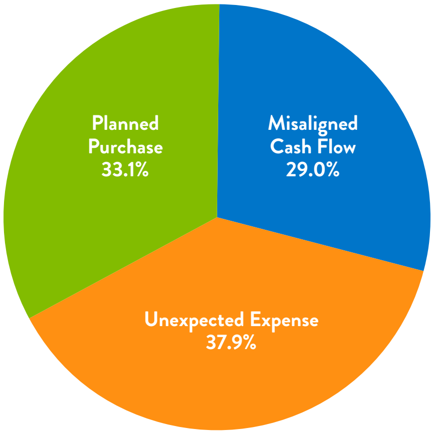
» Misaligned Cash Flow borrowers: These borrowers typically live paycheck-to-paycheck and often work variable hours that cause their wages that change without notice. With little margin for covering expenses before their next paycheck arrives, they seek a loan to address income volatility or a mismatch in timing between when they expect to be paid and when their bills are due.

» Unexpected Expense borrowers: These borrowers typically have little to no emergency savings and seek a loan to address an unexpected financial setback such as an urgent car repair or medical bill.

» Planned Purchase borrowers: These borrowers typically have little to no savings or small savings they prefer to retain for emergencies. They seek a loan to spread out the cost of a major purchase or expense, such as school tuition or a household appliance, over a period of time.

Twenty-nine percent of Oportun first-time borrowers seek credit to address misaligned cash flow, thirty-eight percent for an unexpected expense, and thirty-three percent borrow to make a planned purchase. Nationally, such borrowers spent $26 billion to borrow from pawn, payday, auto title, rent to own, and high-cost installment lenders, including both storefront and online options, in 2015, and an estimated $25 billion in 2016.[8]

Figure 2: Why Do Borrowers Use Small-Dollar Credit?
Percent of Oportun Customers Who Seek Credit for a:



[5] "Data Point: Credit Invisibles," CFPB, 2015
[6] "Report on the Economic Well-Being of U.S. Households in 2015," Federal Reserve, 2016
[7] "Know Your Borrower: The Four Need Cases of Small-Dollar Credit Consumers," CFSI, 2013
[8] "CFSI Financially Underserved Market Size Study," CFSI, 2016

Many lenders prey on the desperation, lack of information, or urgency of credit-challenged borrowers and fail to follow most or all of the practices that make for quality loans. CFSI's Compass Guide to Small-Dollar Credit defines a high-quality loan as one that adheres to seven basic guidelines.

Figure 3:

Compass Guidelines for Small-Dollar Credit

1. Is made with a high confidence in the borrower's ability to repay.

2. Is structured to support repayment.

3. Is priced to align profitability for the provider with success for the borrower.

4. Creates opportunities for upward mobility and greater financial health.

5. Has transparent marketing, communications, and disclosures.

6. Is accessible and convenient.

7. Provides support and rights for borrowers.

Source: "The Compass Guide to Small-Dollar Credit," CFSI, 2013.

In the past decade, several innovators have begun to offer new alternatives to credit-challenged consumers that cover the costs of lending to a higher-risk population while keeping loans affordable, transparent, and supportive of financial health goals such as establishing or building credit. Oportun is a prime example of this trend.

As Oportun and other financial technology companies increase their offerings and reach more borrowers, CFSI recognized the need to measure the cost of credit they provide to consumers compared to typically predatory loans. Yet measuring by APR alone cannot capture the quality built into loan structures and terms, while some predatory lenders also obscure their true costs with hidden fees, markups built into product pricing, or terms that lead to repeat cycles of borrowing for most consumers. This means the propensity to cycle through loans or default is incorporated into the model to reflect the costs of loans which a borrower attempts to pay down but cannot retire and must either abandon or pay off through an alternate solution (such as borrowing from friends and family or taking out a debt consolidation loan) to end payments in the current loan cycle.

To more accurately measure loan cost, CFSI developed a new model to compare loans squarely by focusing on what the consumer ultimately pays back, above the amount they borrowed, to be free and clear of the loan. The model takes into account what the borrower can reasonably afford to pay back each month, the standard rates, fees, and terms that dictate those repayment requirements, and whether the loan structure typically leads to a cycle of debt or to successful repayment that reflects the stated terms of the loan. This means the propensity to cycle through loans or default is incorporated into the model to reflect the costs of loans which a borrower attempts to pay down but cannot retire and must either abandon or pay off through an alternate solution (such as borrowing from friends and family or taking out a debt consolidation loan) to end payments in the current loan cycle.

By comparing the fate of typical borrowers, should they take out loans of identical size from two or more types of lenders, the model demonstrates comparative cost by calculating all that a borrower will spend to fully repay each loan, however long that takes, or else default or find alternate means of repayment if available income will never catch up with the amount owed.

It Adds Up: Assessing The Real Costs of Borrowing

Model Basics

1. Credit Need Profile

CFSI research into small-dollar credit (SDC) borrowers demonstrates that many fall into one of three loan use segments, or Need Cases, that closely match Oportun's customer base.[9] CFSI used this Need Case data to create a consumer-needs-based approach to determine the typical loan size and preferred alternative small-dollar credit products Oportun's customer base would most likely use were an Oportun loan not available to them.

Figure 4: Small-Dollar Credit (SDC) Borrower Need Cases

	Misaligned Cash Flow	Unexpected Expense	Planned Purchase
Oportun First-Time Customer Loan Need	29.0%	37.9%	33.1%
Typical Loan Size Oportun loan size closest to average loan size per Need Case	$700	$1,000	$1,600
Preferred SDC Products Used Assuming Oportun loan is unavailable	Storefront Payday 35% Online Payday 21% Pawn 28% Auto Title 26% Storefront Installment 8% Online Installment 3% Rent to Own 56%	Storefront Payday 16% Online Payday 10% Pawn 23% Auto Title 25% Storefront Installment 22% Online Installment 7% Rent to Own 26%	Storefront Payday 6% Online Payday 4% Pawn 12% Auto Title 36% Storefront Installment 39% Online Installment 12% Rent to Own 10%

Source: Oportun First-Time Customer Loan Need data provided by Oportun; Typical Loan Size and Preferred SDC Products Used sourced from CFSI consumer research analysis and, "Know Your Borrower: The Four Need Cases of Small-Dollar Credit Consumers," CFSI, 2013.

Note: 'Exceeding Income' Need Case not included in this model because this loan Need Case is not applicable to approved Oportun customers.

This estimate is based on a segmentation of borrowers according to their credit needs which identifies the median loan sizes and small-dollar credit product preferences typical of each Need Case segment. The model also incorporated FDIC Household survey data and other indicators of shifting consumer preferences to determine the propensity of credit-challenged consumers to use Rent to Own products or online loans in proportion to the alternative product use captured in the above CFSI survey (See Figure 4). [10]

Based on customer data collected by Oportun which records types of loan needs, CFSI matched Oportun's first-time customers to these three borrower segments, assigning the most likely loan size and alternative small-dollar credit preference to each.

2. Typical Market Rates and Fees of Credit Alternatives

Following the identification of the alternative small-dollar credit products most popular with each need segment and median amounts borrowed, the model assessed the relative market share and typical rates and fees of the top three leading providers of payday, installment, auto title, pawn, and rent to own loans in the geographic markets where Oportun was active as of October 31, 2016, as well as the top three online payday and installment loan providers most readily accessible through internet searches.[11]

These average fees, rates, and terms formed the constraints within which repayment of loans of equal amounts was modeled across multiple products for purposes of comparison. The total time the analysis identified as necessary to repay a loan depends on the structure of the alternative product and how fast a borrower can repay according to these fees, rates, and terms with the cash flow available to them.

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[9] A fourth category of borrower, whose expenses chronically exceed their income, was excluded from this analysis since Oportun does not lend to applicants who cannot afford to repay a loan.

[10] "2013 FDIC National Survey of Unbanked and Underbanked Households," 2014; and "2015 FDIC National Survey of Unbanked and Underbanked Households," 2016.

[11] Oportun markets included 146 locations in California, 52 in Texas, 8 in the Chicago Metropolitan Area of Illinois, 8 in Arizona, 7 in Nevada, and 3 in Utah as of October 31, 2016.

Figure 5: Small-Dollar Credit Pricing By State

Average Pricing By State	AZ	CA	IL	NV	TX	UT
Payday (Storefront) per 2 week cycle	Payday loans not legal	$16.99 per $100	$15.50 per $100	$18.20 per $100	$23.43 per $100	$20.00 per $100
Payday (Online) per 2 week cycle	Payday loans not legal	$16.99 per $100	$15.50 per $100	$23.33 per $100	$25.48 per $100	$23.33 per $100
Pawn per 1 month cycle	Months 1-2: 13%, 11% thereafter; fees $10	2.5% plus 2% per item* up to $10 max	20%	10%, plus $5 set-up fee	15% for loans $201 - $1,340*	20% is typical (no codified state limit)
Auto Title over repayment span (5-27 months)	$159.75 per $100 plus $4 title filing fee	n/a for loans under $2,500**	$37.50 per $100 plus $95 title filing fee	$83.29 per $100 plus $28 title filing fee	$47.75 per $100 plus $33 title filing fee	$171.36 per $100 plus $6 title filing fee
Installment (Storefront) over repayment span (3-48 months)	$202 per $100	n/a for loans under $2,500**	$44.09 per $100	$62.90 per $100	$51.36 per $100	$69.62 per $100
Installment (Online) over repayment span (3-12 months)	Online installment loans not available	n/a for loans under $2,500**	$83.68 per $100	$168.05 per $100	$144.80 per $100	$155.98 per $100
Rent to Own*** over repayment span (10-24 months)	193%	185%	214%	218%	189%	210%

* Individual items pawned for average value of $249 each in model.
** CA law prohibits Auto Title and Installment Loans at typical industry price levels for loans under $2,500, making this option effectively unavailable to consumers.
*** Rent to Own average mark-up percentage above fair market value for a new item of same or similar model at national retailers based on a representative sample of widely available products including a laptop, refrigerator, sofa, and television.

Source: CFSI market research analysis. Note: Effective average of rates and fees; stated consumer pricing for individual loan providers may differ in structure or particulars.

3. Available Cash Flow

The model then calculated the available cash flow of the typical first-time Oportun customer by identifying their average household income and living expenses for basic necessities in the states where Oportun was active.[12] This analysis identified the maximum amount an Oportun customer could afford to repay on a monthly basis after accounting for basic needs and obligations, in effect adhering to a 'best-case scenario' in which all disposable income can be put toward loan repayment. This led to the most conservative result the model can provide in terms of time and money spent to repay a loan.

The analysis used available cash flow to understand the total cost of each loan alternative, including the frequent need for borrowers to enter a cycle of repeat borrowing before they amass enough funds to pay off the total amount owed, and propensity to default on loans or find help to repay through other means when this cycle cannot be broken.

Figure 6: Basic cost of living for a family of three includes:

» Housing
» Utilities
» Mobile phone
» Food & non-edible essentials
» Basic upkeep, insurance, and gas for one vehicle
» Basic low-cost healthcare coverage
» Existing debt obligations
» Net income taxes paid

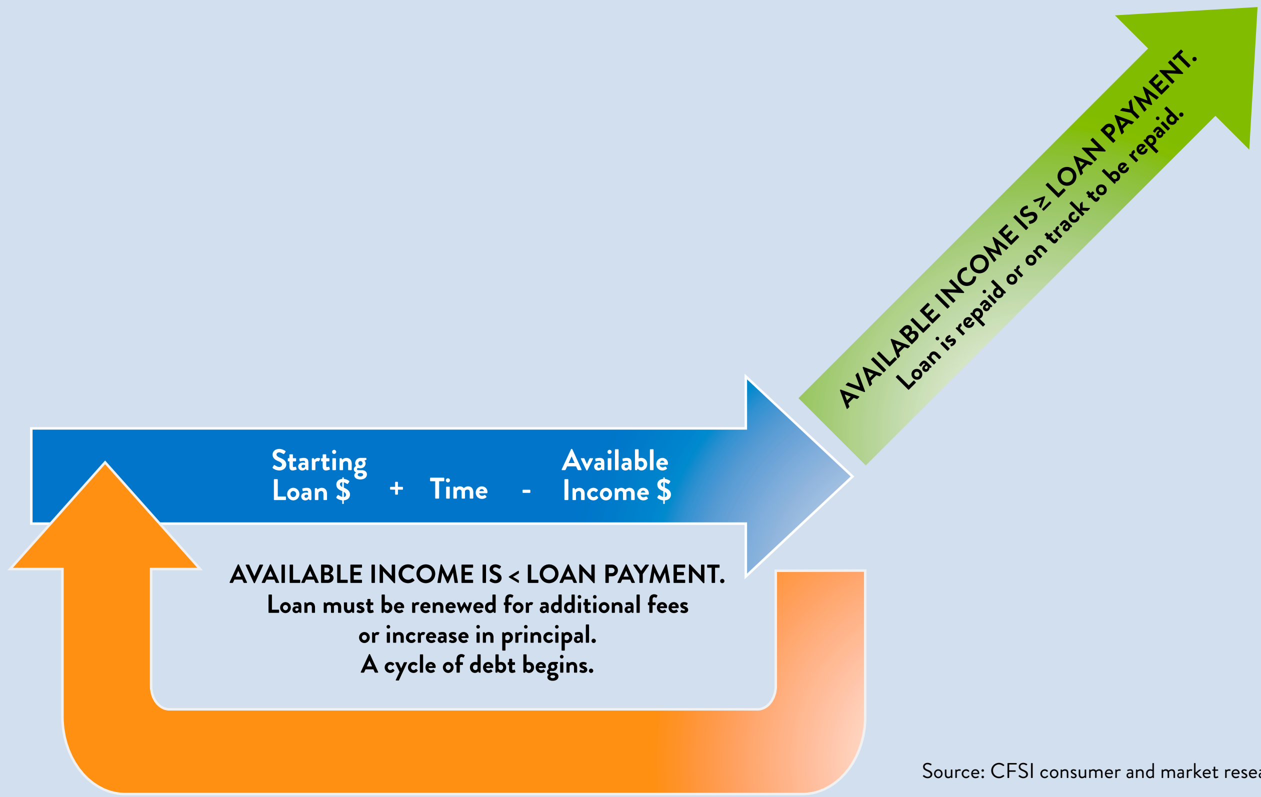
After identifying the true cost of a loan for each small-dollar credit alternative, CFSI applied these costs proportionally to each of the three need segments identified within Oportun's customer base according to the loan size and alternative small-dollar credit preferences of each segment to isolate the total cost that these Oportun customers would have spent on loan alternatives in comparison with the total cost of Oportun loans of equal size.

The result of this comparison isolated the total dollar amount saved by Oportun's customer base on initial loans in comparison to the available loan alternatives, as well as the average savings per individual customer. It also identified the comparative costs of Oportun loans as a percentage of each available alternative small-dollar credit product to identify relative cost savings (See Figures 8 and 9).

[12] Basic living expenses were estimated using publicly available data from sources including the U.S. Census Bureau, U.S. Department of Housing and Urban Development, and the Kaiser Family Foundation.

Figure 7:

Impact of Affordable Loan Repayment on Escaping the Debt Cycle



Source: CFSI consumer and market research analysis.

Model Assumptions

The model errs toward a conservative estimate of consumer costs for loan alternatives whenever a choice presents itself.

» The median amounts borrowed per each Need Case are rounded down to the next lowest Oportun loan size offered (at $700, $1,000, and $1,600 respectively).

» Market leading companies were identified by their storefront footprint, the most pervasive measure of brand coverage common to all storefront products researched. In the case of online payday and installment loans, leading companies were the top hits for direct lenders identified through Google search to approximate the borrower experience of searching for a loan online.

» Model terms and rates for each product adhere to state laws where the law constrains or prohibits product usage, rates, fees, or repayment structure for the loan amounts modeled.

» Product costs account for all origination fees and basic rates but do not include incidental fees such as late fees, early repayment penalties, or add-on products, erring toward a conservative estimate of total loan costs.

» The model focuses on first-time Oportun customers for whom a lack of prior credit establishment makes their use of typically available small-dollar credit alternatives more likely.

» The model additionally focuses on the 91% of first-time Oportun customers who earned up to $50,000 in annual household income.

» The model assumes the borrower will devote all available cash flow after basic living expenses are met to repaying the loan where the amount required per payment exceeds available income.

» The incidence and costs of default behavior captured in the model are triggered only by a borrower's inability to make progress toward repayment based on loan structure and available income. It assumes that no borrower will default or find help to repay through other means if adequate funds are available.

Creating Value: Oportun Customer Savings

Credit alternatives available to the 91% of Oportun first-time customers earning less than $50,000 cost four times more on average. Payday loans in particular cost seven times more on average.

Depending on state of residence and attendant costs of living, borrowers had an average of $153 to $339 in monthly cash flow available to service a loan after basic living expenses were met. (See Appendix Figure 15).

In addition to creating value through lower total costs for borrowing by the time of full repayment, Oportun also was able to meet the credit needs of borrowers who would otherwise have been forced to abandon collateral to pawn shops, or had rent to own items repossessed for lack of repayment due to modest cash flow, rendering their need for affordable credit unfulfilled. Oportun loans also compare favorably with typical alternatives across additional key qualitative measures. (See Appendix Figure 16).

Together, the cost savings, structure designed to support repayment, and credit establishment attributes of Oportun loans provide first-time customers with a better option to address their small-dollar credit needs.

Figure 8:
First-time Oportun customers: 814,471
Total saved by first-time Oportun customers (October 2008 – December 2016): **$920,522,070**
Average savings per loan compared to alternatives: $1,130

Note: Totals reported for the 91% of first-time Oportun customers with income under $50,000.

Figure 9: Comparison of Borrowing Costs: Oportun and Alternative Products

Product	Oportun	Payday	Online Payday	Pawn	Auto Title	Installment	Online Installment	Rent to Own	All Alternatives (weighted average)
Average loan cost per consumer	$345	$2,493	$2,407	$557	$658	$761	$2,543	$835	$1,475
Cost savings of Oportun loan	**---**	**$2,152**	**$2,080**	**$206**	**$280**	**$354**	**$2,133**	**$548**	**$1,130**
Cost of each alternative as a multiple of Oportun loan costs	---	732%	736%	159%	174%	187%	620%	291%	428%

Comparison of spending on fees and interest to repay a loan at Oportun and alternative providers for all first-time Oportun customers earning up to $50,000 annual income.

Oportun average loan cost of $345 based on the model's Oportun average loan size of $1,112. Average Oportun loan costs may vary in comparison to each alternative product depending on prevalent loan sizes for users of each alternative. The model's loan sizes are driven by customer loan use segments. (See Figure 4 on page 5 and Figure 15 on page 16 for more detail).

Source: CFSI consumer and market research analysis. Additional data provided by Oportun.

A Loan in the Life:
From Credit Need to Repayment for a Typical Oportun Customer

The value of a loan measured with CFSI's model can best be understood by not only identifying overall savings, but viewing the loan in terms of the borrower experience as cost and structure translate into savings and positive outcomes over the life of a loan.

Name: **Monica**

Age: **34**

Occupation: **Nursing aide and entrepreneur**

Monthly income: **$1,600-$2,000**

Regular expenses: **$1,300-$1,700**

Available monthly cash flow after expenses: **$0-$700**

Oportun Loan: **$1,000**

Repayment: **$50 biweekly for 12 months (26 payments)**

Loan Need: Unexpected Expense

Monica lives in El Cajon, California, and works as a nurse's aide for a rehabilitation center in nearby San Diego.[13] Monica is married and has two daughters in elementary school. Her husband works on contract as a cable service installer and partners with Monica to sell household and skincare products on the weekend. Their monthly income is stable within a range of $1,600 to $2,000 and she is optimistic regarding the growth of their small business.

Recently, Monica encountered a financial setback when her own mother fell ill and could no longer care for her granddaughters after school for several months. Paying for childcare temporarily increased Monica's expenses. She also missed several days of work to accompany her mother to doctor appointments, which lowered her take-home pay.

She was able to borrow $200 from a relative but needed an additional thousand dollars quickly to secure three months of after school daycare for her children. The most she could set aside given her take-home pay and expenses at this time was $400 a month. Since she and her husband have little credit history, Monica's borrowing options were limited. She considered the impact of both a payday loan and Oportun.

Per California law, each payday lender limited Monica to one $255 loan, which meant she would have to take loans from four different lenders at the same time to borrow $1,000, paying fees on each one. She would also be responsible for fully repaying these loans, which would amount to $1,020 including fees, in just two weeks. Monica knew it would take several months of extra hours on the clock once her mother resumed childcare duties to repay the loan. If she were required to repay all at once in two weeks' time when only $200 in disposable income was available to her, she would be forced to take out a new set of loans to cover the rest of the costs. In fact, she would have to repeat this process thirteen more times, rolling over portions of the loans she could not repay, until after nearly 7 months the loans could finally be completed at a cost of $1,729.

[13] This case study does not report identifying features of any individual. Monica's name, circumstances, and credit needs are a hypothetical for typical Oportun customers.

Figure 10:

Monica's $1,000 Loan: A Cost Comparison

Monthly income available: $400
Income available for biweekly repayment: $200

Payday Loan		Oportun Loan
Takes 4 payday loans for $255 each; must visit 4 lenders*.	**Loan Need: Unexpected Expense Initially Seeks to Borrow: $1,000**	Takes 1 Oportun loan for $1,000.
Agrees to repay full sum in two weeks ($1,020 total).	Loan Agreement	Agrees to 26 biweekly payments of $50 ($1,300 total).
Cannot repay more than $200, which pays for little more than loan fees. Must take out 4 new loans to cover what she still owes, again totaling $1,020. All available income applied to loan.	Two Weeks Later	Makes first on-time payment and owes $1,250. Still has $150 of her available income for other needs.
Continues to roll over loans. Has already spent $1,384 in fees but retired only 1 loan. Still owes $610.	18 Weeks Later	Has made 9 on-time payments and owes $850. Begins to establish a credit score as repayments are reported to credit bureaus.
All loans repaid after 13 additional roll-over periods.	28 Weeks Later	Has made 14 on-time payments and owes $600. Reporting to credit bureaus continues.
	52 Weeks Later	Oportun loan repaid on schedule. Credit score established.
Total Cost: $1,729 5.8 times more expensive than Oportun		**Total Cost: $300**

*California law limits loans to one per lender at a time and a maximum $300 ($255 available to borrow after fees)
Source: CFSI consumer and market research analysis. Additional data provided by Oportun.

An Oportun loan enabled Monica to receive $1,000 quickly to pay for childcare, support her mother's recovery, and establish credit as she repaid the loan. Her biweekly payments of $50 were affordable based on her restricted cash flow, helping her avoid the need to incur additional debt. The debt was repaid over one year at a total cost of $300.

The result:

By taking out an Oportun loan, Monica saved $1,429 in fees compared to using payday loans that would have ended up costing her six times more. Monica also appreciated the flexible payment schedule she could align with her paychecks.

Over the course of her repayment, Monica was able to successfully establish a credit profile, supporting her ability to access lower-cost credit in the future. Since then, Monica has turned to Oportun two more times, for a loan to fix the family's leaky roof and to invest in her side business. Monica saw the APR decrease for each successive loan, a practice that Oportun follows for most returning customers who repay their prior loans in a timely fashion.

Conclusion

Equipped with a clear understanding of the options available to its first-time borrowers and the amount it can save them, Oportun can now quantify its savings impact. Oportun can also better understand the relative value of its loans compared to widely available alternatives, both in terms of lower costs and better borrower outcomes made possible by loans that support successful repayment and establish credit.

The application of CFSI's model provides a new and more accurate method to determine an inclusive measure of consumer borrowing costs. By moving beyond a comparison of APR alone, this framework has the potential to be applied to other lending products and credit structures to answer similar questions of consumer impact while keeping the focus on real alternatives available to small-dollar credit borrowers.

As the small-dollar credit marketplace continues to evolve along with changing technologies, federal regulations, and economic conditions, understanding a loan's true costs points the way toward a clear and consistent approach for practitioners, policy-makers, and community leaders to identify loan delivery models that serve consumers well and support their financial health.

Appendix

Figure 11: Legal Limits of Small-Dollar Credit Products By State

	AZ	CA	IL	NV	TX	UT
Payday (Storefront and Online)	Payday loans not legal.	Limit $300 each ($255 principal plus fees), for 31 days. Fees capped at $45 for maximum loan size and 460% APR.	Limit $1,000 or 25% of borrower monthly income, whichever is less; 13 – 120 days. Fees capped at $15.50 per $100 borrowed and 403% APR.	Limit only to 25% of expected gross monthly income of borrower, maximum term 35 days.	No limits or rate caps, term of 7-31 days.	No limits or rate caps.
Pawn	Rate limit 13% for first two months, then 11% per month thereafter, plus flat fees of $5 each for set-up and storage.	Rate limit 2.5% per month, plus fee of 2% per item up to $10 maximum.	Rate limit 3% per month plus fees; max. monthly finance charge not to exceed 20% of loan amount for all fees and interest combined.	10% per month, plus $5 flat fee.	Maximum APR by size tier: $0 - $201: 240% $201 - $1,340: 180% $1,340 - $2,010: 30% $2,010 - $16,750: 12%	No limits specified. Typical rates are 20% per month.
Auto Title	Monthly rate limit: Up to $500 = 17% $500 - $2,500 = 15% $2,500 -$5,000 = 13% Above $5,000 = 10%	12-30% APR cap for loans under $2,500; Auto Title loans under $2,500 are rare.	Limit $4,000. Principal and interest capped at 50% of borrower monthly income. No rate cap.	No effective rate limit. Principal capped at fair market value of vehicle.	No effective limits or caps. (10% interest limit but no fee cap).	No effective limits or caps.
Installment (Storefront and Online)	Installment interest rate cap is 36% on first $3,000, plus a fee of 5% of principal up to $150 maximum. Not available online. Effective APR at least 41%.	12-30% APR cap for loans under $2,500; typical Installment loans under $2,500 are rare.*	Limit 99% APR, 112-180 days. Monthly payments capped at 22.5% of borrower's gross monthly income.	No effective limits or caps. (Loans over 150 days have 40% APR limit but loans under 150 days have no rate limit and can be renewed.)	Limit 84% APR; other fees not capped; no effective cap overall.	No effective limits or caps.
Rent to Own	No limit or cap on basic price structure, only to security deposits, late fees or add-on fees.	No limit or cap on basic price structure, only to security deposits, late fees or add-on fees.	No limit or cap on basic price structure, only to security deposits, late fees or add-on fees.	No limit or cap on basic price structure, only to security deposits, late fees or add-on fees.	No limit or cap on basic price structure, only to security deposits, late fees or add-on fees.	No limit or cap on basic price structure, only to security deposits, late fees or add-on fees.

* In California, Oportun operates under the Pilot Program for Increased Access to Responsible Small Dollar Loans (the Pilot Program), first implemented in 2011 and now extended until 2023. CA legal limits shown here do not reflect those limits allowed under the Pilot Program.

Source: CFSI market research analysis

Figure 12: Small Dollar Credit Pricing By State

		AZ	CA	IL	NV	TX	UT
Average Pricing By State	**Payday (Storefront)** per 2 week cycle	Payday loans not legal	$16.99 per $100	$15.50 per $100	$18.20 per $100	$23.43 per $100	$20.00 per $100
	Payday (Online) per 2 week cycle	Payday loans not legal	$16.99 per $100	$15.50 per $100	$23.33 per $100	$25.48 per $100	$23.33 per $100
	Pawn per 1 month cycle	13% for first two months, 11% thereafter; set-up and storage fee $5 each	2.5%, plus 2% fee per item* up to $10 maximum	20%	10%, plus $5 set-up fee	15% for loans $201 - $1,340*	20% is typical (no codified state limit)
	Auto Title over full span of repayment (5 to 27 months, depending on provider and state)	$159.75 per $100 Plus $4 title filing fee to state of AZ.	n/a for loans under $2,500**	$37.50 per $100 Plus $95 title filing fee to state of IL.	$83.29 per $100 Plus $28 title filing fee to state of NV.	$47.75 per $100 Plus $33 title filing fee to state of TX.	$171.36 per $100 Plus $6 title filing fee to state of UT.
	Installment (Storefront) over full span of repayment (3 to 48 months, depending on provider and state)	$202 per $100	n/a for loans under $2,500**	$44.09 per $100	$62.90 per $100	$51.36 per $100	$69.62 per $100
	Installment (Online) over full span of repayment (3 to 12 months, depending on provider and state)	Online installment loans not available	n/a for loans under $2,500**	$83.68 per $100	$168.05 per $100	$144.80 per $100	$155.98 per $100
	Rent to Own*** over full span of rent to own payment plan (10 to 24 months, depending on provider, rental item, and state)	193%	185%	214%	218%	189%	210%

* Individual items pawned for average value of $249 each in model.
** CA law prohibits Auto Title and Installment Loans at typical industry price levels for loans under $2,500, making this option effectively unavailable to consumers.
*** Rent to Own average mark-up percentage above fair market value for a new item of same or similar model at national retailers based on a representative sample of widely available products including a laptop, refrigerator, sofa, and television.

Source: CFSI market research analysis

Figure 13: Small Dollar Credit Market Leaders By State

		AZ	CA	IL	NV	TX	UT
Top 3 Market Leaders By State	**Payday (Storefront)**	Payday loans not legal	Advance America CNG Financial (Check 'n Go) Check into Cash	PLS Financial Services CNG Financial (Check 'n Go) QC Holdings (Quik Cash)	Check City Cash America Speedy Cash	Cash America CNG Financial (Check 'n Go) Advance America	Check City Money 4 You Payday Loans QC Holdings (Quik Cash)
	Payday (Online)	Payday loans not legal	Advance America CashNetUSA Check into Cash	Check City CashNetUSA Check into Cash	Check City CashNetUSA Check into Cash	Advance America CashNetUSA Check into Cash	CNG Financial (Check 'n Go) Check City Check into Cash
	Pawn	Cash America/ SuperPawn Pawn1st Loans n/a	Dollar Financial Best Collateral Pawn Shop Cash America	Cash America EZCorp (EZPawn) Big Pawn	EZCorp (EZPawn) Cash America/ SuperPawn n/a	EZ Corp (EZ Pawn) First Cash Financial Cash America	EZ Corp (EZ Pawn) Family Pawn Xtreme Pawn
	Auto Title	TitleMax Check into Cash Speedy Cash	n/a*	OneMain Financial Illinois Title Loans TitleMax	TitleMax Speedy Cash Advance America	TitleMax Ace Cash OneMain Financial	TitleMax OneMain Financial n/a
	Installment (Storefront)	OneMain Financial n/a	n/a*	OneMain Financial Personal Finance Company Speedy Cash	Speedy Cash Security Finance Advance America	World Acceptance OneMain Financial Western Shamrock	Security Finance OneMain Financial Advance America
	Installment (Online)	Online installment loans not available	n/a*	CashNetUSA Speedy Cash MoneyKey	Speedy Cash RadiantCash Las Vegas Finance	Advance America CashNetUSA Speedy Cash	MoneyKey Wise Loan Cash Central
	Rent to Own	Rent-a-Center Aaron's FlexShopper (online)	Rent-a-Center Aaron's FlexShopper (online)	Rent-a-Center Aaron's FlexShopper (online)	Rent-a-Center Aaron's FlexShopper (online)	Aaron's Rent-a-Center FlexShopper (online)	Rent-a-Center Aaron's FlexShopper (online)

*CA law prohibits Auto Title and Installment Loans at typical industry price levels for loans under $2,500, making this option effectively unavailable to consumers.

Source: CFSI market research analysis

Figure 14:

A Typical Borrower In The Loan Cost Model

Earns gross annual income of $50,000 or less
(91% of all Oportun first-time customers)

Has limited cash flow available to service a loan after basic living expenses are met. The model subtracts the following basic expenses from gross income to isolate available cash flow:

» Housing

» Utilities

» Mobile Phone

» Vehicle Upkeep

» Vehicle Insurance — for 1 vehicle

» Gas

» Food & Household Non-Edible Essentials

» Healthcare

» Existing Debt Obligations

» Income Tax

The model takes a conservative approach by making the assumption of maximum funds available to service a loan. The model assumes modest spending on the expenses at left for a family of three (one adult, two minors) and a best case scenario during loan repayment period in which no funds are spent on clothing, entertainment, travel, major purchases such as electronics or appliances, major medical costs, education, or childcare.

Figure 15: True Cost of Loan Repayment for Oportun and Small-Dollar Credit Alternatives

		AZ			CA			IL			NV			TX			UT		
Amount Borrowed		$700	$1,000	$1,600	$700	$1,000	$1,600	$700	$1,000	$1,600	$700	$1,000	$1,600	$700	$1,000	$1,600	$700	$1,000	$1,600
Total Fees and Interest Spent to Complete Repayment of Loan	**Oportun**	$156	$222	$434	$184	$295	$527	$194	$352	$467	$118	$235	$479	$244	$408	$443	$168	$272	$520
	Payday (Store-front)		---	---	$1,641*	$2,171*	$3,697*	$1,411*	$2,217*	$3,557*	$1,501*	$2,093*	$3,749*	$1,429*	$2,425*	$3,456*	$1,400*	$2,060*	$3,290*
	Payday (Online)	---	---	---	$1,641*	$2,171*	$3,697*	$1,411*	$2,217*	$3,557*	$1,540*	$2,042*	$3,512*	$1,681*	$2,229*	$3,987*	$1,470*	$2,287*	$3,395*
	Pawn	$346	$1,232	$3,234**	$157	$415	$762**	$896	$2,367**	$2,470**	$299	$957	$2,272**	$336	$1,046	$2,801**	$448	$1,594	$3,376**
	Auto Title	$700*	$1,000*	$1,600*	---	---	---	$393	$506	$731	$635	$978	$1,600*	$383	$526	$800	$700*	$1,000*	$1,600*
	Install-ment (Store-front)	$1,400*	$2,000*	$3,200*	---	---	---	$309	$441	$705	$440	$741	$3,200*	$361	$516	$825	$487	$696	$1,114
	Install-ment (Online)	---	---	---	---	---	---	$586	$837	$3,200*	$1,400*	$2,000*	$3,200*	$1,013	$2,000*	$3,200*	$1,092	$1,601	$3,200*
	Rent to Own	$1,354	$1,934	$3,095	$1,295	Repo***	Repo***	$1,500	$2,143	Repo***	$1,525	$2,178	Repo***	$1,325	$1,893	$3,029	$1,470	$2,100	$3,361

Available Monthly Cash Flow** Average for first-time Oportun customers earning ≤$50,000 annually after meeting basic living expenses.	**$283**	**$153**	**$226**	**$253**	**$305**	**$339**

Comparison of spending on fees and interest to repay a loan at Oportun and alternative providers for all first-time Oportun customers earning up to $50,000 annual income. All figures rounded to the nearest dollar.

* Average repaid until payments cease at loan default or help is found to repay in full. Payments cease in the model when fees and interest paid are equal to, or greater than, the value of starting loan principal for Auto Title loans, and twice the value of starting loan principal for Payday, Online Payday, Installment, and Online Installment loans. Default may lead to loss of vehicle or receipt only of vehicle proceeds in excess of outstanding loan balance for Auto Title loans.

** Each pawned item in the model garners a loan of $249; multiple items must be pawned to reach total dollar amount of credit need. Some pawned items may not be recovered. Loss of item(s) occurs in the model when total monthly fees exceed available income and one or more items must be relinquished in order to fully service and repay loans for the remaining items through a series of monthly loans. Loss of items may also occur if loan cycle continues for 12 months, after which payments cease in the model and items are either relinquished or help is found to repay.

*** Rented item is repossessed at end of first month because borrower cannot afford the payment. Borrower does not incur cost but is effectively denied continued access to this source of credit.

Source: CFSI consumer and market research analysis. Additional data provided by Oportun.

Figure 16: Comparison of Lending Practices for Oportun and Small-Dollar Credit Alternatives

Loan Features	High Quality Practices	Oportun	Payday	Online Payday	Pawn	Auto Title	Installment	Online Installment	Rent to Own
Loan Length	Length of loan and frequency of payments balanced with loan amount to support affordability and successful repayment.	7-35 months; payments biweekly; no pre-payment penalties	14 – 30 days; due in one lump-sum payment	14 – 30 days; due in one lump-sum payment	30 days; due in one lump-sum payment	30 days; due in one lump-sum payment – or – 3-24 months, weekly, biweekly or monthly payments	3-48 months; weekly, biweekly or monthly payments; pre-payment penalties typical	3-12 months; biweekly or monthly payments; pre-payment penalties typical	6-24 months; weekly, biweekly or monthly payments
Collateral or Guaranty	Collateral used in conjunction with underwrit-ing but not as a substitute for determining ability to repay.	None	Bank account access	Bank account access for ACH payment withdrawals	Ownership of pawned item	Title to vehicle	Bank account access; Non-auto title collateral sometimes required to secure loans	Bank account access for ACH payment withdrawals	Item can be repossessed for non-payment
Disbursement Speed	Time from decision to disbursement minimized to align with borrower loan need.	Same day - 2 days	Same day	Same day	Same day	Same day - 2 days	Same day - 2 days	Same day	Same day - 2 days
Underwriting	Loans made with high expectation of on-time repayment without need for refinancing or renewal.	Underwrites based on ability to repay	None	Few lenders underwrite	None	None	Some lenders underwrite	Some lenders underwrite	None
Credit Reporting	Loan payments reported to credit bureaus to support credit establishment and credit building.	Reports to credit bureaus	None	Few lenders report to credit bureaus	None	Few lenders report to credit bureaus	Some lenders report to credit bureaus	Some lenders report to credit bureaus	None
Transparency	All required and incidental rates, fees, and terms clearly displayed and stated prior to origination.	Terms and conditions clearly described; bilingual point of sale service and online presence; no early repay-ment penalty	Repayment effectively in increments, typically $25-$100; rollovers and defaults common	Repayment effectively in increments, typically $25-$100; rollovers and defaults common	Repayment must be all-or-nothing; rollovers and defaults common	"Alternative" structure with balloon payments marketed (Texas); early repayment often penalized	Aggressive marketing of refinances; early repayment often penalized	Aggressive marketing of refinances; early repayment often penalized	Repossession or early return for non-payment common (75% of items within first 4 months)
Incidental Fees and Costs	Loan is structured to include all required fees in loan pricing and minimize incidental fees; incidental fees subject to flexibility to support repayment without loan refinancing or renewal.	Late fee charged beyond grace period. Fee charged upon first NSF; no representments made after first NSF.	Check cashing fee to convert loan $10-$15; 27% of loans lead to overdraft charges (average overdraft $29)	Bank overdraft and NSF fees, average $185, impact half of online payday borrowers due to automatic withdrawal attempts by lenders seeking repayment; penalties lead to account loss for one third of those impacted	Additional fees $5-$30 per item monthly for processing, storage, or handling; 35% of pawn borrowers in model lost at least one item	Additional fees to state title agency: $95 in IL, $33 in CA and most parts of TX, $28 in NV, $6 in UT, and $4 in AZ; 6-11% of vehicles repossessed annually	Grace period for late payments; late fees $10-$20, incurred by up to 30% of borrowers monthly; some lenders market loan insurance add-ons aggressively, typically $75 per $200 borrowed	Interest-only or balloon payments common; some lenders offer grace period for late payments; some lenders market loan insurance add-ons aggressively, typically $75 per $200 borrowed	Some repayment flexibility; terms can often be spread among more frequent payments of smaller amounts

Sources: CFSI market research analysis; CFPB, "Online Payday Loan Payments," April 2016; Pew, "How Borrowers Choose and Repay Payday Loans," February 2013. Additional data provided by Oportun.